

Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended.

Unit Name	Lenawee County Drain Commis	County	LENAWEE	Type	COUNTY	MuniCode	46-7-006
Opinion Date	06/09/2008	Audit Submitted	06/25/2008	Fiscal Year	2007		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="text" value="N/A"/>
General Fund Expenditure:	<input type="text" value="N/A"/>
Major Fund Deficit Amount:	<input type="text" value="\$438,323"/>

General Fund Balance:	<input type="text" value="N/A"/>
Governmental Activities Long-Term Debt (see instructions):	<input type="text" value="\$17,956,422"/>

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	David	Last Name	Fisher	Ten Digit License Number	1101010337
CPA Street Address	675 Robinson Road	City	Jackson	State	MI
				Zip Code	49203
				Telephone	(517) 787-6503
CPA Firm Name	Rehmann Robson	Unit's Street Address	320 Springbrook Ave	City	Adrian
				Zip Code	49221

**LENAWEE COUNTY
DRAIN COMMISSION**

Financial Statements

For The Year Ended December 31, 2007



REHMANN ROBSON

Certified Public Accountants

LENAWEE COUNTY DRAIN COMMISSION

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

June 9, 2008

To the Drain Commissioner of
Lenawee County
Adrian, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the ***Lenawee County Drain Commission, a component unit of Lenawee County, Michigan***, as of and for the year ended December 31, 2007, which collectively comprise the Drain Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the Lenawee County Drain Commission. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Lenawee County Drain Commission as of December 31, 2007, and the respective changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2008 on our consideration of the *Lenawee County Drain Commission's* internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Lenawee County Drain Commission has not presented Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lenawee County Drain Commission's basic financial statements. The combining nonmajor fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

BASIC FINANCIAL STATEMENTS

COMPONENT-WIDE FINANCIAL STATEMENTS

LENAWEE COUNTY DRAIN COMMISSION
Statement of Net Assets
December 31, 2007

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,086,730	\$ 1,770,123	\$ 2,856,853
Receivables	1,007,634	14,808,632	15,816,266
Inventory	63,648	-	63,648
Capital assets being depreciated, net	3,914,311	-	3,914,311
Total assets	6,072,323	16,578,755	22,651,078
Liabilities			
Accounts payable and accrued expenses	534,383	342,151	876,534
Noncurrent liabilities:			
Due within one year	1,083,564	1,330,000	2,413,564
Due in more than one year	1,410,870	14,131,988	15,542,858
Total liabilities	3,028,817	15,804,139	18,832,956
Net Assets			
Invested in capital assets, net of related debt	1,419,877	-	1,419,877
Restricted for other municipalities	-	774,616	774,616
Unrestricted	1,623,629	-	1,623,629
Total net assets	\$ 3,043,506	\$ 774,616	\$ 3,818,122

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY DRAIN COMMISSION
Statement of Activities
For the Year Ended December 31, 2007

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
Public works	\$ 1,028,667	\$ -	\$ -	\$ 1,036,836	\$ 8,169
Business-type activities:					
Municipal water and sewer projects	2,910,530	607,790	1,666,221	-	(636,519)
Total drain commission	<u>\$ 3,939,197</u>	<u>\$ 607,790</u>	<u>\$ 1,666,221</u>	<u>\$ 1,036,836</u>	<u>\$ (628,350)</u>

continued...

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY DRAIN COMMISSION
Statement of Activities (Concluded)
For the Year Ended December 31, 2007

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Changes in net assets			
Net (expense) revenue	<u>\$ 8,169</u>	<u>\$ (636,519)</u>	<u>\$ (628,350)</u>
General revenues:			
Unrestricted investment earnings	43,855	62,302	106,157
Other revenue	<u>133,115</u>	<u>449,223</u>	<u>582,338</u>
Total general revenues	<u>176,970</u>	<u>511,525</u>	<u>688,495</u>
Change in net assets	185,139	(124,994)	60,145
Net assets, beginning of year	<u>2,858,367</u>	<u>899,610</u>	<u>3,757,977</u>
Net assets, end of year	<u><u>\$ 3,043,506</u></u>	<u><u>\$ 774,616</u></u>	<u><u>\$ 3,818,122</u></u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

LENAWEE COUNTY DRAIN COMMISSION

Balance Sheet Governmental Funds December 31, 2007

	Drain Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and cash equivalents	\$ 873,954	\$ 109,224	\$ 983,178
Due from other funds	-	1,351,572	1,351,572
Special assessments receivable	876,133	131,501	1,007,634
Inventory	-	63,648	63,648
<u>TOTAL ASSETS</u>	<u>\$ 1,750,087</u>	<u>\$ 1,655,945</u>	<u>\$ 3,406,032</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Due to other funds	\$ 1,312,277	\$ 39,295	\$ 1,351,572
Advance from primary government	-	525,000	525,000
Deferred revenue	876,133	131,501	1,007,634
Total liabilities	2,188,410	695,796	2,884,206
Fund balances (deficit)			
Unreserved - undesignated (deficit)	(438,323)	-	(438,323)
Reported in nonmajor capital project funds	-	960,149	960,149
Total fund balances (deficit)	(438,323)	960,149	521,826
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 1,750,087</u>	<u>\$ 1,655,945</u>	<u>\$ 3,406,032</u>

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY DRAIN COMMISSION
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
December 31, 2007

Fund balances - total governmental funds	\$ 521,826
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets, net of accumulated depreciation	3,302,057
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Other long-term assets are not available to pay current year expenditures and, therefore, are not recorded in the funds.

Add - deferred revenue on long-term special assessments receivable	1,007,634
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An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add - net assets of governmental activities accounted for in the internal service fund	409,587
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Certain liabilities, such as bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(1,165,385)
Deduct - drain notes payable	(1,032,213)

Net assets of governmental activities	<u><u>\$ 3,043,506</u></u>
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The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY DRAIN COMMISSION
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2007

	Drain Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Special assessments	\$ 914,711	\$ 130,842	\$ 1,045,553
Interest	40,896	5,232	46,128
Total revenue	955,607	136,074	1,091,681
Expenditures			
Current:			
Public works	1,125,697	59,894	1,185,591
Debt service:			
Principal	330,337	97,615	427,952
Interest and fiscal charges	62,004	20,985	82,989
Total expenditures	1,518,038	178,494	1,696,532
Revenue over (under) expenditures	(562,431)	(42,420)	(604,851)
Other financing sources (uses)			
Issuance of bonds and notes	102,150	406,800	508,950
Net change in fund balances	(460,281)	364,380	(95,901)
Fund balance, beginning of year	21,958	595,769	617,727
Fund balance (deficit), end of year	\$ (438,323)	\$ 960,149	\$ 521,826

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY DRAIN COMMISSION
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2007

Net change in fund balances - total governmental funds	\$ (95,901)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	244,116
Deduct - depreciation expense	(79,174)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on bonds payable	427,952
Deduct - bond proceeds	(508,950)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Deduct - net operating loss from governmental activities in internal service fund	162,183
Deduct - interest expense from governmental internal service fund	(14,108)
Deduct - loss on sale of capital assets	(73,104)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Add - change in deferred long-term receivables	122,125
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Change in net assets of governmental activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 2px 10px;">\$ 185,139</div>
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The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY DRAIN COMMISSION

Statement of Net Assets

Proprietary Funds

December 31, 2007

	Business-type Activities -		
	Township of Madison Water	Cambridge/ Franklin Sewer	Wampler's Lake Sewer
Assets			
Current assets			
Cash and cash equivalents	\$ 6,536	\$ 327,353	\$ 613,408
Current portion of lease receivable	190,000	205,000	300,000
Total current assets	196,536	532,353	913,408
Noncurrent assets			
Leases receivable, net of current portion	1,703,464	1,132,647	1,356,890
Capital assets, net of accumulated depreciation	-	-	-
Total other assets	1,703,464	1,132,647	1,356,890
Total assets	1,900,000	1,665,000	2,270,298
Liabilities			
Current liabilities			
Accounts payable	-	-	-
Interest payable	-	-	-
Due to other governments	-	-	-
Current portion of bonds payable	190,000	205,000	300,000
Current portion of notes payable	-	-	-
Current portion of lease purchase agreement	-	-	-
Total current liabilities	190,000	205,000	300,000
Long-term debt			
Advance from primary government	-	-	-
Bonds payable	1,710,000	1,460,000	1,615,000
Notes payable	-	-	-
Lease purchase agreement	-	-	-
Total long-term debt	1,710,000	1,460,000	1,615,000
Total liabilities	1,900,000	1,665,000	1,915,000
Net assets			
Invested in capital assets, net of related debt	-	-	-
Unrestricted	-	-	355,298
Total net assets	\$ -	\$ -	\$ 355,298

The accompanying notes are an integral part of these financial statements.

Enterprise Funds					Governmental Activities
					Internal Service
Central Lenawee Sewer	Rollin- Woodstock Sewer	Riga Township Water	Nonmajor Enterprise Funds	Total	Drain Equipment Revolving
\$ 82,477	\$ 141,898	\$ 29,806	\$ 568,645	\$ 1,770,123	\$ 103,552
270,000	240,000	-	125,000	1,330,000	-
352,477	381,898	29,806	693,645	3,100,123	103,552
4,979,956	3,817,898	-	487,777	13,478,632	-
-	-	-	-	-	612,254
4,979,956	3,817,898	-	487,777	13,478,632	612,254
5,332,433	4,199,796	29,806	1,181,422	16,578,755	715,806
-	-	-	-	-	9,383
-	4,561	-	-	4,561	-
-	-	11,520	195,770	207,290	-
270,000	240,000	-	125,000	1,330,000	-
-	-	-	-	-	64,269
-	-	-	-	-	33,492
270,000	244,561	11,520	320,770	1,541,851	107,144
-	130,300	-	-	130,300	-
4,996,988	3,725,000	-	625,000	14,131,988	-
-	-	-	-	-	84,288
-	-	-	-	-	114,787
4,996,988	3,855,300	-	625,000	14,262,288	199,075
5,266,988	4,099,861	11,520	945,770	15,804,139	306,219
-	-	-	-	-	315,418
65,445	99,935	18,286	235,652	774,616	94,169
\$ 65,445	\$ 99,935	\$ 18,286	\$ 235,652	\$ 774,616	\$ 409,587

LENAWEE COUNTY DRAIN COMMISSION
Statement of Revenue, Expenses and
Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2007

	Business-type Activities -		
	Township of Madison Water	Cambridge/ Franklin Sewer	Wampler's Lake Sewer
Operating revenue			
Intergovernmental revenue	\$ 101,049	\$ 178,924	\$ 337,757
Charges for services	-	-	-
Other revenue	-	-	-
Total operating revenue	101,049	178,924	337,757
Operating expenses			
Other expense	-	-	466,466
Depreciation expense	-	-	-
Total operating expenses	-	-	466,466
Operating income (loss)	101,049	178,924	(128,709)
Non-operating revenue (expenses)			
Interest income	380	16,606	21,433
Interest expense	(101,429)	(82,268)	(165,443)
Loss on sale of capital assets	-	-	-
Total non-operating revenue (expenses)	(101,049)	(65,662)	(144,010)
Income (loss) before transfers	-	113,262	(272,719)
Transfers from other funds	-	-	113,262
Transfers to other funds	-	(113,262)	-
Change in net assets	-	-	(159,457)
Net assets, beginning of year	-	-	514,755
Net assets, end of year	\$ -	\$ -	\$ 355,298

The accompanying notes are an integral part of these financial statements.

Enterprise Funds						Governmental Activities
						Internal Service
Central Lenawee Sewer	Rollin- Woodstock Sewer	Riga Township Water	Nonmajor Enterprise Funds	Total		Drain Equipment Revolving
\$ 491,724	\$ 108,214	\$ -	\$ 448,553	\$ 1,666,221	\$ -	
-	-	-	13,740	13,740	536,789	
-	445,849	580,179	13,871	1,039,899	-	
491,724	554,063	580,179	476,164	2,719,860	536,789	
245,221	451,628	565,169	480,319	2,208,803	249,483	
-	-	-	-	-	125,123	
245,221	451,628	565,169	480,319	2,208,803	374,606	
246,503	102,435	15,010	(4,155)	511,057	162,183	
2,647	4,719	1,027	18,864	65,676	-	
(198,862)	(109,561)	-	(44,164)	(701,727)	(14,108)	
-	-	-	-	-	(73,104)	
(196,215)	(104,842)	1,027	(25,300)	(636,051)	(87,212)	
50,288	(2,407)	16,037	(29,455)	(124,994)	74,971	
-	-	-	-	113,262	-	
-	-	-	-	(113,262)	-	
50,288	(2,407)	16,037	(29,455)	(124,994)	74,971	
15,157	102,342	2,249	265,107	899,610	334,616	
\$ 65,445	\$ 99,935	\$ 18,286	\$ 235,652	\$ 774,616	\$ 409,587	

LENAWEE COUNTY DRAIN COMMISSION
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2007

	Business-type Activities -		
	Township of Madison Water	Cambridge/ Franklin Sewer	Wampler's Lake Sewer
Cash flows from operating activities			
Cash received from municipalities	\$ 101,049	\$ 178,924	\$ 337,757
Other operating receipts	-	-	-
Cash paid to employees and suppliers	-	-	(466,466)
Receipts for interfund services provided	-	-	-
Net cash provided by operating activities	101,049	178,924	(128,709)
Cash flows from capital and related financing activities			
Principal payments	(305,000)	(205,000)	(285,000)
Interest payments	(101,429)	(82,268)	(165,443)
Proceeds from long-term debt	-	-	-
Payments for additional leases receivable	(170)	(206,594)	(9,838)
Purchase of capital assets	-	-	-
Net cash used in capital and related financing activities	(406,599)	(493,862)	(460,281)
Cash flows from non-capital financing activities			
Advance from primary government	-	-	-
Transfers from other funds	-	-	113,262
Transfers to other funds	-	(113,262)	-
Net cash provided by (used in) non-capital financing activities	-	(113,262)	113,262
Cash flows from investing activities			
Interest income received	380	16,606	21,433
Amounts collected on leases receivable	305,000	205,000	285,000
Net cash provided by investing activities	305,380	221,606	306,433
Net increase (decrease) in cash and cash equivalents	(170)	(206,594)	(169,295)
Cash and cash equivalents, beginning of year	6,706	533,947	782,703
Cash and cash equivalents, end of year	\$ 6,536	\$ 327,353	\$ 613,408

Enterprise Funds					Governmental Activities
					Internal Service
Central Lenawee Sewer	Rollin- Woodstock Sewer	Riga Township Water	Nonmajor Enterprise Funds	Total	Drain Equipment Revolving
\$ 491,724	\$ 108,214	\$ -	\$ 448,553	\$ 1,666,221	\$ -
-	445,849	580,179	27,611	1,053,639	-
(245,221)	(451,628)	(559,129)	(492,179)	(2,214,623)	(245,029)
-	-	-	-	-	536,789
246,503	102,435	21,050	(16,015)	505,237	291,760
(265,000)	(235,000)	-	(115,000)	(1,410,000)	(82,920)
(198,862)	(105,000)	-	(44,164)	(697,166)	(14,108)
-	-	-	-	-	54,895
-	(121,407)	-	(8,111)	(346,120)	-
-	-	-	-	-	(148,577)
(463,862)	(461,407)	-	(167,275)	(2,453,286)	(190,710)
-	130,300	-	-	130,300	-
-	-	-	-	113,262	-
-	-	-	-	(113,262)	-
-	130,300	-	-	130,300	-
2,647	4,719	1,027	18,864	65,676	-
273,490	235,000	-	115,000	1,418,490	-
276,137	239,719	1,027	133,864	1,484,166	-
58,778	11,047	22,077	(49,426)	(333,583)	101,050
23,699	130,851	7,729	618,071	2,103,706	2,502
\$ 82,477	\$ 141,898	\$ 29,806	\$ 568,645	\$ 1,770,123	\$ 103,552

LENAWEE COUNTY DRAIN COMMISSION
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended December 31, 2007

	Business-type Activities -		
	Township of Madison Water	Cambridge/ Franklin Sewer	Wampler's Lake Sewer
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ 101,049	\$ 178,924	\$ (128,709)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	-	-	-
Increase (decrease) in:			
Due to other governments	-	-	-
Net cash provided by operating activities	<u>\$ 101,049</u>	<u>\$ 178,924</u>	<u>\$ (128,709)</u>

The accompanying notes are an integral part of these financial statements.

Enterprise Funds					Governmental Activities
					Internal Service
Central Lenawee Sewer	Rollin- Woodstock Sewer	Riga Township Water	Nonmajor Enterprise Funds	Total	Drain Equipment Revolving
\$ 246,503	\$ 102,435	\$ 15,010	\$ (4,155)	\$ 511,057	\$ 162,183
-	-	-	-	-	125,123
-	-	6,040	(11,860)	(5,820)	4,454
\$ 246,503	\$ 102,435	\$ 21,050	\$ (16,015)	\$ 505,237	\$ 291,760

NOTES to the FINANCIAL STATEMENTS

LENAWEE COUNTY DRAIN COMMISSION

Notes To Basic Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

These financial statements represent the financial position and the changes in financial position of the funds of the Lenawee County Drain Commission (the “Drain Commission”). These funds are considered to be a discretely presented component unit of Lenawee County (the “County” or “primary government”) and are an integral part of that reporting entity.

B. Component-wide and Fund Financial Statements

The component-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The component-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

LENAWEE COUNTY DRAIN COMMISSION

Notes To Basic Financial Statements

Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Drain Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period. Only special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue for the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Drain Commission reports the following major governmental funds:

The *drain capital projects fund* accounts for the use of resources in constructing and maintaining the drain system. The primary funding source for this fund is special assessments.

The Drain Commission reports the following major proprietary funds:

The *Township of Madison water fund* accounts for the financing of system improvements for the stated municipality.

The *Cambridge/Franklin sewer fund* accounts for the financing of system improvements for the stated municipality.

The *Wampler's Lake sewer fund* accounts for the financing of system improvements and certain operations and maintenance costs for the stated municipality.

The *Central Lenawee sewer fund* accounts for the financing of system improvements and certain operations and maintenance costs for the stated municipality.

The *Rollin-Woodstock sewer fund* accounts for the financing of system improvements and certain operations and maintenance costs for the stated municipality.

The *Riga Township water fund* accounts for the financing of system improvements and certain operations and maintenance costs for the stated municipality.

LENAWEE COUNTY DRAIN COMMISSION

Notes To Basic Financial Statements

The *capital projects funds* account for the use of resources, primarily bond proceeds, in constructing drains.

The *internal service fund* accounts for operations that provide services to other funds of the Drain Commission, on a cost-reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the component-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service fund are charges to cities and townships for operations, equipment rentals, and finance charges. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

LENAWEE COUNTY DRAIN COMMISSION

Notes To Basic Financial Statements

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Drain Commission's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less. All deposits and investments are in the name of the County Treasurer

Investments are stated at fair value.

State statutes authorize the County to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

2. Receivables and Payables

Activity between funds that are representative of lending/ borrowing arrangements outstanding at the end of the year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Special assessments receivable, which are based on total estimated construction and maintenance costs of each drain project, reflect amounts due from benefiting parties including local units of government and property owners. No allowance for uncollectibles is recorded because the special assessments represent a lien on the respective properties.

3. Inventory

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

LENAWEE COUNTY DRAIN COMMISSION

Notes To Basic Financial Statements

4. Capital Assets

Capital assets, which include mobile equipment and infrastructure assets, are reported in the governmental activities column of the Statement of Net Assets. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of 2 years. Major outlays for equipment and infrastructure capital assets and improvements are capitalized as projects are constructed. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets, if any, are recorded at estimated fair value at the date of donation.

Infrastructure is depreciated using the straight-line method over 50 years and equipment is being depreciated over 5 or 10 years.

5. Long-term Obligations

In the component-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt is reported as a liability in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

LENAWEE COUNTY DRAIN COMMISSION

Notes To Basic Financial Statements

II. DETAILED NOTES ON ALL FUNDS

A. Deposit and Investments

At year end, the carrying amount of deposits and investments of the Drain Commission were as follows:

Deposits held in the name of the County Treasurer	\$ 1,990,969
Investments	<u>865,884</u>
Total	<u>\$ 2,856,853</u>

The Drain Commission chooses to disclose its investments by specifically identifying each. As of year end, the Drain Commission had the following investments through the County Treasurer.

	Carrying Amount (Fair Value)	<u>Credit Rating</u>
Investments:		
Comerica Governmental Cash Investment Fund	\$ 595,066	-n/a-
MBIA Local Government Investment Pool	<u>270,818</u>	-n/a-
	<u>\$ 865,884</u>	

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on investment credit risk. None of the Drain Commission's investments were subject to credit risk rating.

LENAWEE COUNTY DRAIN COMMISSION

Notes To Basic Financial Statements

Custodial Credit Risk – Deposits. The Drain Commission maintains \$1,990,969 in checking, savings and CD accounts at banks which are under custody of the County Treasurer. It is not practical to determine the insured portion of these balances since they are included in the pooled and other cash accounts of Lenawee County.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Drain Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the County does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The Drain Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

B. Receivables

Receivables in the governmental activities consist entirely of special assessments. At year end, the Drain Commission reported special assessments receivable of \$1,007,634. All amounts are expected to be collected within one year.

Receivables in the business-type activities consist entirely of leases receivable. The terms of these capital leases, which relate to water and sewer systems constructed by the Drain Commission on behalf of the local units, match the debt maturity requirements of the related bonds less any cash remaining in the funds to repay the debt. At year end, the Drain Commission reported leases receivable in business-type activities of \$14,808,632, \$1,330,000 of which is expected to be collected within one year.

Governmental funds report deferred revenue in connection with special assessments receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At year end, the Drain Commission reported deferred ("unavailable") revenue of \$1,007,634.

C. Due to Other Governments

Due to other governments recognized in business-type activities as accounts payable represent amounts held for municipalities for the construction and maintenance of water and sewer systems. At year end, the Drain Commission reported \$207,290 as due to other governments.

LENAWEE COUNTY DRAIN COMMISSION

Notes To Basic Financial Statements

D. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2007, was as follows:

	<u>Receivable</u>	<u>Payable</u>
Due to/from other funds:		
Drain Capital Projects Fund	\$ -	\$ 1,312,277
Nonmajor governmental funds	<u>1,351,572</u>	<u>39,295</u>
Total	<u>\$ 1,351,572</u>	<u>\$ 1,351,572</u>
Advances from primary government:		
Nonmajor governmental funds		<u>\$ 525,000</u>

The Drain Commission has interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

E. Capital Assets

Capital asset activity for the year ended December 31, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Infrastructure	\$ 3,891,266	\$ 244,116	\$ -	\$ 4,135,382
Equipment	<u>1,355,690</u>	<u>148,577</u>	<u>160,745</u>	<u>1,343,522</u>
Total capital assets, being depreciated	<u>5,246,956</u>	<u>392,693</u>	<u>160,745</u>	<u>5,478,904</u>
Less accumulated depreciation for:				
Infrastructure	754,151	79,174	-	833,325
Equipment	<u>693,786</u>	<u>125,123</u>	<u>87,641</u>	<u>731,268</u>
Total accumulated depreciation	<u>1,447,937</u>	<u>204,297</u>	<u>87,641</u>	<u>1,564,593</u>
Governmental activities capital assets, net	<u>\$ 3,799,019</u>	<u>\$ 188,396</u>	<u>\$ 73,104</u>	<u>\$ 3,914,311</u>

LENAWEE COUNTY DRAIN COMMISSION

Notes To Basic Financial Statements

F. Long-term Debt

The following is a summary of the changes in long-term obligations for the year ended December 31, 2007:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable	\$ 1,433,000	\$ -	\$ 267,615	\$ 1,165,385	\$ 313,846
Drain notes payable	683,600	508,950	160,337	1,032,213	671,957
Notes payable	144,745	54,895	51,083	148,557	64,269
Lease purchase agreement	180,116	-	31,837	148,279	33,492
	<u>2,441,461</u>	<u>563,845</u>	<u>510,872</u>	<u>2,494,434</u>	<u>1,083,564</u>
Business-type activities:					
Bonds payable	16,871,988	-	1,410,000	15,461,988	1,330,000
	<u>16,871,988</u>	<u>-</u>	<u>1,410,000</u>	<u>15,461,988</u>	<u>1,330,000</u>
Total Drain Commission	<u>\$ 19,313,449</u>	<u>\$ 563,845</u>	<u>\$ 1,920,872</u>	<u>\$ 17,956,422</u>	<u>\$ 2,413,564</u>

Governmental Activities:

General obligation bonds currently outstanding are as follows:

<u>District</u>	<u>Original Issue</u>	<u>Annual Installments</u>	<u>Through Period</u>	<u>Interest Rate</u>	<u>Amount</u>
Windemere Drain	\$ 385,000	\$ 35,000 – \$ 40,000	2014	2.3%	\$ 280,000
Pollard Drain	410,000	100,000 – 110,000	2008	2.3%	110,000
Bent Oak Drain	385,000	35,000 – 40,000	2014	3.0 – 4.2%	280,000
Lock Erin Lake Level	200,000	81,400 – 118,600	2008	2.5%	<u>495,385</u>
Total					<u>\$ 1,165,385</u>

Drain notes payable consist of ten drain notes payable in total annual installments of \$14,150 to \$180,300 at interest rates of 2.74% to 6.45%, with final payment due in 2015.

LENAWEE COUNTY DRAIN COMMISSION

Notes To Basic Financial Statements

Notes payable consist of seven notes payable for vehicle/equipment purchases due in annual installments of \$6,000 to \$17,062 at interest rates of 2.90% to 6.25%, with final payment due in 2012.

There are two lease purchase agreements for equipment payable in annual installments of \$10,269 to \$31,837 at an interest rate of 5.00% to 5.30%, with final payment due in 2011.

Annual debt service requirements to maturity for governmental activities as of December 31, 2007, are as follows:

	Bonds		Drain Notes		Notes		Lease Purchase	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 313,846	\$ 39,676	\$ 671,957	\$ 27,620	\$ 64,269	\$ 9,066	\$ 33,493	\$ 6,931
2009	203,846	31,028	84,856	13,770	57,857	5,094	35,233	5,191
2010	203,846	23,599	80,140	10,490	14,231	1,737	37,063	3,361
2011	203,847	15,949	80,140	7,525	6,000	773	42,490	965
2012	80,000	8,100	44,080	4,560	6,200	393	-	-
2013-2015	160,000	6,600	71,040	6,840	-	-	-	-
	<u>\$ 1,165,385</u>	<u>\$ 124,952</u>	<u>\$1,032,213</u>	<u>\$ 70,805</u>	<u>\$ 148,557</u>	<u>\$ 17,063</u>	<u>\$ 148,279</u>	<u>\$ 16,448</u>

Business-type Activities:

<u>District</u>	<u>Original Issue</u>	<u>Annual Installments</u>	<u>Through Period</u>	<u>Interest Rate</u>	<u>Amount</u>
South Shore	\$ 850,000	\$ 25,000 – \$ 50,000	2016	5.0 - 7.0%	\$ 420,000
Posey Lake	1,400,000	60,000 – 85,000	2011	5.0 - 8.0%	330,000
Madison					
Township #4	3,460,000	110,000 – 190,000	2017	4.8 - 5.0%	1,900,000
Cambridge/Franklin	3,890,000	175,000 – 265,000	2015	4.5 - 7.5%	1,665,000
Wampler's Lake	5,000,000	225,000 – 345,000	2013	5.0%	1,915,000
Rollin-Woodstock - Plant Improvement	5,080,000	210,000 – 330,000	2021	2.5%	3,965,000
Central Lenawee Sewer	4,410,000	95,000 – 320,000	2023	3.0 - 4.6%	3,800,000
Central Lenawee Sewer – DWRP	1,875,000	90,000 – 95,000	2023	2.5%	<u>1,466,988</u>
Total					<u>\$ 15,461,988</u>

LENAWEE COUNTY DRAIN COMMISSION

Notes To Basic Financial Statements

Annual debt service requirements to maturity for business-type activities as of December 31, 2007, are as follows:

	Bonds	
	Principal	Interest
2008	\$ 1,330,000	\$ 580,819
2009	1,345,000	519,388
2010	1,370,000	463,650
2011	1,380,000	407,963
2012	1,315,000	353,602
2013-2017	5,205,000	1,088,367
2018-2022	3,150,000	389,152
2023	366,988	15,894
	<u>\$ 15,461,988</u>	<u>\$ 3,818,835</u>

III. OTHER INFORMATION

A. Defined Benefit Pension Plan

Plan Description

The Drain Commission, as a component unit of Lenawee County, contributes to a single-employer defined benefit pension plan provided through a private insurance company that acts as a common investment and administrative agent for the County. The details related to participation are reported in the financial statements of Lenawee County.

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COMBINING FINANCIAL STATEMENTS

LENAWEE COUNTY DRAIN COMMISSION

Combining Balance Sheet

Nonmajor Governmental Funds

December 31, 2007

Capital Project Funds

804			
802 Drain Revolving	Drain Maintenance Revolving	841 Lake Level	Total

ASSETS

Assets

Cash and cash equivalents	\$ 19,835	\$ 8,046	\$ 81,343	\$ 109,224
Due from other funds	441,517	910,055	-	1,351,572
Special assessments receivable	-	-	131,501	131,501
Inventory	63,648	-	-	63,648

TOTAL ASSETS

\$ 525,000	\$ 918,101	\$ 212,844	\$ 1,655,945
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LIABILITIES AND FUND BALANCE

Liabilities

Due to other funds	\$ -	\$ -	\$ 39,295	\$ 39,295
Advance from primary government	525,000	-	-	525,000
Deferred revenue	-	-	131,501	131,501

Total liabilities	525,000	-	170,796	695,796
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Fund balance

Unreserved - undesignated	-	918,101	42,048	960,149
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TOTAL LIABILITIES AND FUND BALANCE

\$ 525,000	\$ 918,101	\$ 212,844	\$ 1,655,945
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LENAWEE COUNTY DRAIN COMMISSION
Combining Statement of Revenue, Expenditures
and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended December 31, 2007

	Capital Project Funds			
	802	804	841	
	Drain	Drain	Lake	
	Revolving	Maintenance	Level	Total
		Revolving		
Revenue				
Special assessments	\$ -	\$ -	\$ 130,842	\$ 130,842
Interest	-	2,273	2,959	5,232
Total revenue	-	2,273	133,801	136,074
Expenditures				
Current:				
Public works	-	-	59,894	59,894
Debt service:				
Principal	-	-	97,615	97,615
Interest and fiscal charges	-	-	20,985	20,985
Total expenditures	-	-	178,494	178,494
Revenue over (under) expenditures	-	2,273	(44,693)	(42,420)
Other financing sources				
Issuance of bonds and notes	-	406,800	-	406,800
Net change in fund balances	-	409,073	(44,693)	364,380
Fund balance, beginning of year	-	509,028	86,741	595,769
Fund balance, end of year	\$ -	\$ 918,101	\$ 42,048	\$ 960,149

LENAWEE COUNTY DRAIN COMMISSION

Combining Statement of Net Assets

Nonmajor Enterprise Funds

December 31, 2007

	City of Morenci	South Shore	Posey Lake	Lake Arrowhead Estates Water
Assets				
Current assets				
Cash and cash equivalents	\$ 5,513	\$ 168,018	\$ 370	\$ 833
Current portion of lease receivable	-	45,000	80,000	-
Total current assets	5,513	213,018	80,370	833
Noncurrent assets				
Leases receivable, net of current portion	-	238,120	249,657	-
Total assets	5,513	451,138	330,027	833
Liabilities				
Current liabilities				
Due to other governments	5,513	-	-	824
Current portion of bonds payable	-	45,000	80,000	-
Total current liabilities	5,513	45,000	80,000	824
Long-term debt				
Bonds payable	-	375,000	250,000	-
Total long-term debt	-	375,000	250,000	-
Total liabilities	5,513	420,000	330,000	824
Net assets				
Unrestricted	\$ -	\$ 31,138	\$ 27	\$ 9

Township of Adrian	Richlyn Mannor Water	Mannor Farms	Clayton Sewer	Fairfield Sewer	Loch Erin Sewer	Total
\$ 30,473	\$ 903	\$ 50	\$ 1,206	\$ 3,701	\$ 357,578	\$ 568,645
-	-	-	-	-	-	125,000
30,473	903	50	1,206	3,701	357,578	693,645
-	-	-	-	-	-	487,777
30,473	903	50	1,206	3,701	357,578	1,181,422
11,498	-	-	-	-	177,935	195,770
-	-	-	-	-	-	125,000
11,498	-	-	-	-	177,935	320,770
-	-	-	-	-	-	625,000
-	-	-	-	-	-	625,000
11,498	-	-	-	-	177,935	945,770
\$ 18,975	\$ 903	\$ 50	\$ 1,206	\$ 3,701	\$ 179,643	\$ 235,652

LENAWEE COUNTY DRAIN COMMISSION
Combining Statement of Revenue, Expenses and
Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended December 31, 2007

	City of Morenci	South Shore	Posey Lake	Lake Arrowhead Estates Water
Operating revenue				
Intergovernmental revenue	\$ -	\$ 48,800	\$ 76,082	\$ 18,106
Charges for services	-	-	-	-
Other revenue	-	-	-	-
Total operating revenue	-	48,800	76,082	18,106
Operating expenses				
Operations and maintenance	-	42,633	54,653	18,392
Operating income (loss)	-	6,167	21,429	(286)
Non-operating revenue (expenses)				
Interest income	-	5,866	105	55
Interest expense	-	(22,639)	(21,525)	-
Total non-operating revenue (expenses)	-	(16,773)	(21,420)	55
Change in net assets	-	(10,606)	9	(231)
Net assets, beginning of year	-	41,744	18	240
Net assets, end of year	\$ -	\$ 31,138	\$ 27	\$ 9

Township of Adrian	Richlyn Mannor Water	Mannor Farms	Clayton Sewer	Fairfield Sewer	Loch Erin Sewer	Total
\$ 129,971	\$ -	\$ -	\$ 27,175	\$ 41,618	\$ 106,801	\$ 448,553
-	-	13,740	-	-	-	13,740
-	13,871	-	-	-	-	13,871
129,971	13,871	13,740	27,175	41,618	106,801	476,164
130,966	14,291	14,976	27,972	40,576	135,860	480,319
(995)	(420)	(1,236)	(797)	1,042	(29,059)	(4,155)
717	35	35	72	98	11,881	18,864
-	-	-	-	-	-	(44,164)
717	35	35	72	98	11,881	(25,300)
(278)	(385)	(1,201)	(725)	1,140	(17,178)	(29,455)
19,253	1,288	1,251	1,931	2,561	196,821	265,107
\$ 18,975	\$ 903	\$ 50	\$ 1,206	\$ 3,701	\$ 179,643	\$ 235,652

LENAAWEE COUNTY DRAIN COMMISSION
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended December 31, 2007

	City of Morenci	South Shore	Posey Lake
Cash flows from operating activities			
Cash received from municipalities	\$ -	\$ 48,800	\$ 76,082
Other operating receipts	-	-	-
Cash paid to employees and suppliers	(214)	(42,633)	(54,653)
	<hr/>	<hr/>	<hr/>
Net cash provided by (used in) operating activities	(214)	6,167	21,429
	<hr/>	<hr/>	<hr/>
Cash flows from capital and related financing activities			
Principal payments	-	(45,000)	(70,000)
Interest payments	-	(22,639)	(21,525)
Payments for additional leases receivable	-	(7,774)	(337)
	<hr/>	<hr/>	<hr/>
Net cash used in capital and related financing activities	-	(75,413)	(91,862)
	<hr/>	<hr/>	<hr/>
Cash flows from investing activities			
Interest income received	-	5,866	105
Amounts collected on leases receivable	-	45,000	70,000
	<hr/>	<hr/>	<hr/>
Net cash provided by investing activities	-	50,866	70,105
	<hr/>	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	(214)	(18,380)	(328)
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents, beginning of year	5,727	186,398	698
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents, end of year	<u>\$ 5,513</u>	<u>\$ 168,018</u>	<u>\$ 370</u>
	<hr/>	<hr/>	<hr/>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ -	\$ 6,167	\$ 21,429
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Increase (decrease) in:			
Due to other governments	(214)	-	-
	<hr/>	<hr/>	<hr/>
Net cash provided by (used in) operating activities	<u>\$ (214)</u>	<u>\$ 6,167</u>	<u>\$ 21,429</u>
	<hr/>	<hr/>	<hr/>

Lake Arrowhead Estates Water	Township of Adrian	Richlyn Mannor Water	Mannor Farms	Clayton Sewer	Fairfield Sewer	Loch Erin Sewer	Total
\$ 18,106	\$129,971	\$ -	\$ -	\$ 27,175	\$ 41,618	\$ 106,801	\$ 448,553
-	-	13,871	13,740	-	-	-	27,611
(18,259)	(123,478)	(14,291)	(14,976)	(27,972)	(40,576)	(155,127)	(492,179)
(153)	6,493	(420)	(1,236)	(797)	1,042	(48,326)	(16,015)
-	-	-	-	-	-	-	(115,000)
-	-	-	-	-	-	-	(44,164)
-	-	-	-	-	-	-	(8,111)
-	-	-	-	-	-	-	(167,275)
55	717	35	35	72	98	11,881	18,864
-	-	-	-	-	-	-	115,000
55	717	35	35	72	98	11,881	133,864
(98)	7,210	(385)	(1,201)	(725)	1,140	(36,445)	(49,426)
931	23,263	1,288	1,251	1,931	2,561	394,023	618,071
\$ 833	\$ 30,473	\$ 903	\$ 50	\$ 1,206	\$ 3,701	\$ 357,578	\$ 568,645
\$ (286)	\$ (995)	\$ (420)	\$ (1,236)	\$ (797)	\$ 1,042	\$ (29,059)	\$ (4,155)
133	7,488	-	-	-	-	(19,267)	(11,860)
\$ (153)	\$ 6,493	\$ (420)	\$ (1,236)	\$ (797)	\$ 1,042	\$ (48,326)	\$ (16,015)



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

June 9, 2008

To the Drain Commissioner of
Lenawee County
Adrian, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***Lenawee County Drain Commission***, as of and for the year ended December 31, 2007, which collectively comprise the Drain Commission's basic financial statements, and have issued our report thereon dated June 9, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lenawee County Drain Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Drain Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Drain Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over financial reporting and the deficiency in bank reconciliations described below as items 2007-1, 2007-2, and 2007-3 to be significant deficiencies.

2007-1 Preparation of Financial Statements in Accordance with GAAP

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

Cause: This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Management's response: The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

2007-2**Internal Controls – Bank Reconciliations**

- Criteria:** Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Drain Commission's assets. Properly completed bank reconciliations, prepared on a timely basis by individuals without cash receipting or cash disbursement responsibilities and reviewed by an appropriate individual, are a fundamental element of internal control.
- Condition:** For pooled cash accounts at the Treasurer's Office, we noted that the recording of cash transactions and bank reconciliations are performed by the same individual. For those accounts, we examined bank reconciliations noting there is no indication of when and by whom the reconciliation was prepared and no evidence of independent review once the reconciliations are completed.
- Cause:** This condition was caused by past practice and staff shortages in the Treasurer's Office.
- Effect:** As a result of this condition, the Drain Commission's cash and investments could be potentially misappropriated or misstated.
- Recommendation:** We recommend that the County have a responsible person, who is independent of the cash and bank reconciliation process, review, initial and date all reconciliations. In addition, the preparer of the reconciliation should also initial and date all reconciliations and whenever possible, should not record cash transactions.
- Management's response:** The Treasurer's Office was short staffed by one person for a full year, and two employees for half of the year in 2007. After the auditor's recommendation last year, the Treasurer reviewed the reconciliations as time permitted. The Treasurer further states that the individual does date the report of the reconciliation, but now that she is aware that the reconciliation should also be initialed, it will be from this point forward. Now that the office is back to full staff, the Treasurer will be designating and training an employee to review reconciliations. There are times when it is necessary for the individual who regularly prepares the reconciliation to do cash receipts, but this is only in a backup capacity.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Drain Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Drain Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2007-3 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lenawee County Drain Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Lenawee County Drain Commission's responses to the findings identified in our audit are described above. We did not audit Lenawee County Drain Commission's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management, the Drain Commissioner, others within the organization, and federal awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.